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OCI No. 6263
Copy No. 15

CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE
16 July 1954

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TO: Deputy Director (Intelligence)
SUBJECT: Status of Iranian Oil Negotiations*

Reports from the American embassy at Tehran continue optimistic concerning agreement in principle on the Iranian oil problem. The consortium representatives and the Iranian delegation report progress, although with some difficulty on certain points. Price arrangements and duration of the agreement appear to continue causing some trouble. Ambassador Henderson does not believe, however, that an impasse is developing.

1. Form of Preliminary Agreement:

Henderson reports that the consortium representatives may prefer an informal aide-memoire as the first expression of an oil settlement rather than an initialing of principles of agreement. Such a device would be more expeditious as it would not require submission to the home offices for legal clearance and approval. Although an aide-memoire would be simpler and quicker to prepare, Henderson believes that it would be less binding on either party.

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State Dept. review completed

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Class. Changed To:	TS	S	C
Auth.:	HR 70-2		
Date:	20 JUN 1978		
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2. Volume of Offtake Appears Settled:

The negotiators appear to have settled the volume of offtake by the consortium. Production has been set at 15,000,000 tons during the first year on condition that the agreement is signed and ratified prior to 1 October 1954. If ratification is delayed, production would be reduced at a proportionate rate. Offtake during the second and third years would be 20,000,000 and 30,000,000 tons, respectively. This arrangement is a gain for the Iranian negotiators.

3. Compensation Arising from Nationalization of AIOC Properties:

Negotiations between Iran and Britain on the matter of compensation continue. Although Henderson reports that the discussions are taking place "in a pleasant atmosphere," no substantive decisions are known to have been reached. Expectations have been that an announcement of an oil agreement and a settlement of the compensation question would be announced at the same time. It appears, however, that the compensation negotiations are lagging and will not be completed within the same period.

4. Convertability of Sterling Proceeds:

Discussion between Britain and the United States continues with respect to convertability into dollars of sterling proceeds from oil sales. British efforts are directed toward gaining maximum restrictiveness in this matter to the serious concern of the United States. The American view appears to be that there should be no restriction on 40 percent conversion arrangements in view of the extensive American aid to Iran and the scale of American participation in the consortium. The extent to which the Iranians are informed of these discussions is unclear.

5. Arrangement to Guarantee the Oil Settlement:

The United States and Britain continue their efforts to obtain a device by means of which the durability of a settlement can be assured. Commenting on this phase of the problem, Ambassador Aldrich understandingly indicates that the British attach considerable importance to this question in light of their experience in 1951.

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He informed the Foreign Office, however, that although the United States is anxious to assist American companies in finding a suitable protective arrangement, it would not urge any action on Iran which would jeopardize ratification of the consortium agreement.

6. Nearness of Settlement in Principle:

An indication of Herbert Hoover Jr.'s optimism concerning a settlement is seen in his request to the Department of State that he be permitted to return to Washington for consultation as soon as a settlement in principle is reached. His tentative plan is to leave Tehran on 18 or 22 July.

HUNTINGTON D. SHELDON
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